

LEGISLATIVE AUDIT DIVISION

REPORT SUMMARY

GOVERNOR'S OFFICE OF ECONOMIC OPPORTUNITY OFFICE OF THE GOVERNOR

Performance Audit
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INTRODUCTION The 2003 Legislature included language in House Bill (HB) 2 requesting the Legislative Audit Committee prioritize a performance audit of the Governor's Office of Economic Opportunity (GOEO). HB 2 terminology suggests the Legislature is seeking some assurance that GOEO is meeting established goals or targets. However, the request also suggests there is continuing uncertainty among state policy makers regarding the fundamental purpose of the office and the overall economic development structure in Montana.

Statute assigns GOEO both a policy and a program role, but there is limited additional definition of these terms. Although some of the issue areas assigned to GOEO in statute could be construed as involving program administration, statute does not provide specific guidance. Creating GOEO was part of continuing efforts to coordinate the increasingly varied economic development resources available in state government.

CURRENT GOEO STRUCTURE DOES NOT PROVIDE CONTINUITY GOEO has been in existence for approximately three years. During this time, the office has been responsible for developing a strategic economic development plan, pursuing policy initiatives outlined in the plan, and conducting other activities assigned in statute or considered necessary by the Governor or the Legislature. The effectiveness of GOEO needs to be assessed by reviewing the office's activities and accomplishments in the context of Montana's previous statewide economic development planning and policy coordination efforts. For much of the past three decades Montana appears to have been stuck in perpetual planning mode. There has never been a long-term commitment to pursuing solutions or tracking progress.

If GOEO is to lead the state's economic development policy coordination and planning efforts, there must be some assurance that the office can provide continuity and long-term focus on issues. The current structure for state economic development functions does not provide an opportunity to break free from the perpetual planning mode.

LEGISLATURE SHOULD DETERMINE THE FUTURE OF GOEO Continuing with the current structure risks wasting time and resources developing plans and policy initiatives with minimal long-

term impacts. In these circumstances, eliminating the office may be preferable to continuing to devote resources to activities with limited benefits. The alternative is to develop GOEO as a mechanism for promoting continuity and stability in the state's economic development policy and planning function. Four main issues should be addressed to achieve this:

- 1) Improve strategic planning
- 2) Define GOEO programmatic duties
- 3) Revise GOEO governance structure
- 4) Determine GOEO resource needs

GOEO PLANNING PROCEDURES MET ACCEPTED STANDARDS In general, the strategic planning process involves plan development, policy formulation and prioritization, and plan implementation and monitoring. The planning process used in developing the Roadmap plan met accepted standards and was comparable with planning efforts in other state agencies. The process used in developing the office's strategic economic development plan ensured opportunities were available for public comment. The policy initiatives addressed in the Roadmap plan are reasonable and appropriate in the context of the theory and current practice of state economic development policy. The performance measurement system developed by GOEO in the Roadmap plan can provide an effective means of monitoring progress towards the office's goals.

GOEO Should Develop Plan Update Procedures There are currently no formalized procedures in place to provide guidance on how the Roadmap will be reviewed and updated. GOEO should develop and adopt formal review and update procedures for the Roadmap plan to help strengthen the credibility of the planning process among stakeholders and improve the effectiveness of GOEO operations.

CONFUSION EXISTS OVER GOEO ROLE There is confusion over the purpose of GOEO relating primarily to the office's responsibility for programmatic functions. GOEO is assigned responsibility for two programs: state marketing and business recruitment, and administration of the Primary Sector Business Workforce Training Act.

Marketing and Business Recruitment Needs Should be Determined Statute requires GOEO to pursue this function and the original appropriation suggested the Legislature envisioned an active recruitment effort. Following reductions in funding, GOEO now operates a passive recruitment program. It is unclear whether the Legislature wants GOEO to perform this role. If the Legislature determines Montana needs to pursue state marketing and business recruitment, GOEO is the suitable organizational location for these functions. Both marketing and business recruitment functions could benefit from proximity to the external connections available in the Governor's office. If the Legislature makes a commitment to this program, funding for these efforts should be addressed.

Identify Alternative Structures for Workforce Training Program Administration GOEO

administers the Primary Sector Business Workforce Training Act through a grant application and review process. The main concern in relation to this program is that existing structures within state government already perform workforce-training functions. Both the Department of Labor and Industry and the Department of Commerce have expertise and resources in administering workforce training grant programs. The Legislature should reassess the current disposition of functions associated with the Primary Sector Business Workforce Training Act. Administrative efficiency and resource availability should be principal concerns in these decisions. In the case of the Workforce Training Act, there are alternative structures in other departments.

GOEO GOVERNANCE STRUCTURE The organization and relationships between governmental entities establishes the governance structure within which agencies work. In relation to GOEO, audit work identified a weak governance structure as being partly responsible for problems affecting the office. We believe the current structure presents several difficulties affecting the continuity and long-term stability of functions performed by GOEO:

- ▶ **Isolation and Politicization** – GOEO is isolated within the executive branch and this has led to its functions being perceived as politicized. Politicization could decrease the chance of developing successful long-term policy initiatives.
- ▶ **Stakeholder Involvement** – there are insufficient opportunities for important stakeholders, including the Legislature and the university system, to provide input.
- ▶ **Oversight** –Periodic changes in administration may result in significant changes in oversight procedures, making effective monitoring of long-term progress doubtful.

ALTERNATIVE APPROACHES COULD PROMOTE CONTINUITY AND STABILITY By reviewing alternative organizational approaches used for other policy and strategic planning functions in Montana and in other states, we can identify some potential changes in the governance structure for GOEO. Three generalized models are identified; departmental model, corporate model, and commission model.

Department Model Does Not Reflect Polity Trends The departmental model reverts back to an organizational structure previously used in Montana. Policy and programmatic functions currently assigned to GOEO would be moved within an existing department. Recent trends suggest Montana has moved beyond this structure and there does not appear to be broad support for a return to the department model. The ability to develop and coordinate policy across state government and deliver certain strategic programs could be compromised within the department model.

Corporate Model Requires Broader Revision of Economic Development Functions In the corporate model GOEO functions are moved into an organization outside of state government (a

private, not-for-profit corporation.) Based on the experiences of other states, moving Montana to a corporate model would entail significant restructuring within several state agencies. Additionally, concerns over constitutional limitations on the independence and flexibility accorded to a corporate entity could reduce benefits offered by this model.

Commission Model Offers Solutions Appropriate to Current Situation Under the commission model GOEO remains part of the Governor's Office, but a commission or board is introduced as a governing entity. The commission's membership would reflect a broad range of interests and could provide both oversight and added input on policy development or program functions. We believe some version of the commission model provides the best prospect for resolving some concerns relating to GOEO. The commission model offers the prospect of insulating GOEO from political pressure and stabilizing the office's functions through transitions in administration. The Legislature should address commission membership terms and role.

RESOURCE AVAILABILITY GOEO has faced resource limitations since its establishment. Resource availability issues relate to both the office's staffing and budgets. However, the office's policy focus means human resource availability is a more important issue. The lack of program responsibilities means the financial resources available to the office are of secondary importance.

HUMAN RESOURCES By law, the Chief Business Officer (CBO) and six professional staff positions are exempted from provisions in statute relating to state employee classification, compensation, and dismissal. The office currently operates with two FTE, in addition to the CBO. Two employees left during 2003, and one position was left vacant following the death of another employee. GOEO, other state agencies, and the private sector have argued that one of the factors contributing towards employee departures is that these positions are perceived as being political appointments and that this has contributed to problems with continuity in their relationships.

Staff Positions Should Reflect Governance Structure Maintaining flexibility in staffing decisions could be beneficial for GOEO, but there are understandable concerns over instability resulting from frequent turnover. The problem relates to the link between specific gubernatorial administrations and the office's staff. The potential solution could be assigning GOEO personnel as the permanent staff of a governance commission. Decisions regarding terms of service would be the responsibility of the commission.

Funding Should Be Stabilized GOEO is funded primarily through the state's general fund. Over the past four years, GOEO has seen its total available funding reduced by approximately one third. Based only on general fund, the funding reduction is around 42 percent and these cuts have been made without any changes in the scope of the office's functions.

LEGISLATURE SHOULD ADDRESS GOEO STAFFING AND FUNDING We believe the Legislature should consider taking steps to stabilize GOEO funding to ensure the functions performed by the office can benefit from long-term continuity. Identifying a stable, long-term revenue source could help provide a greater degree of continuity in Montana's economic development functions and promote strategic thinking in efforts to improve the economic well-being of the state.